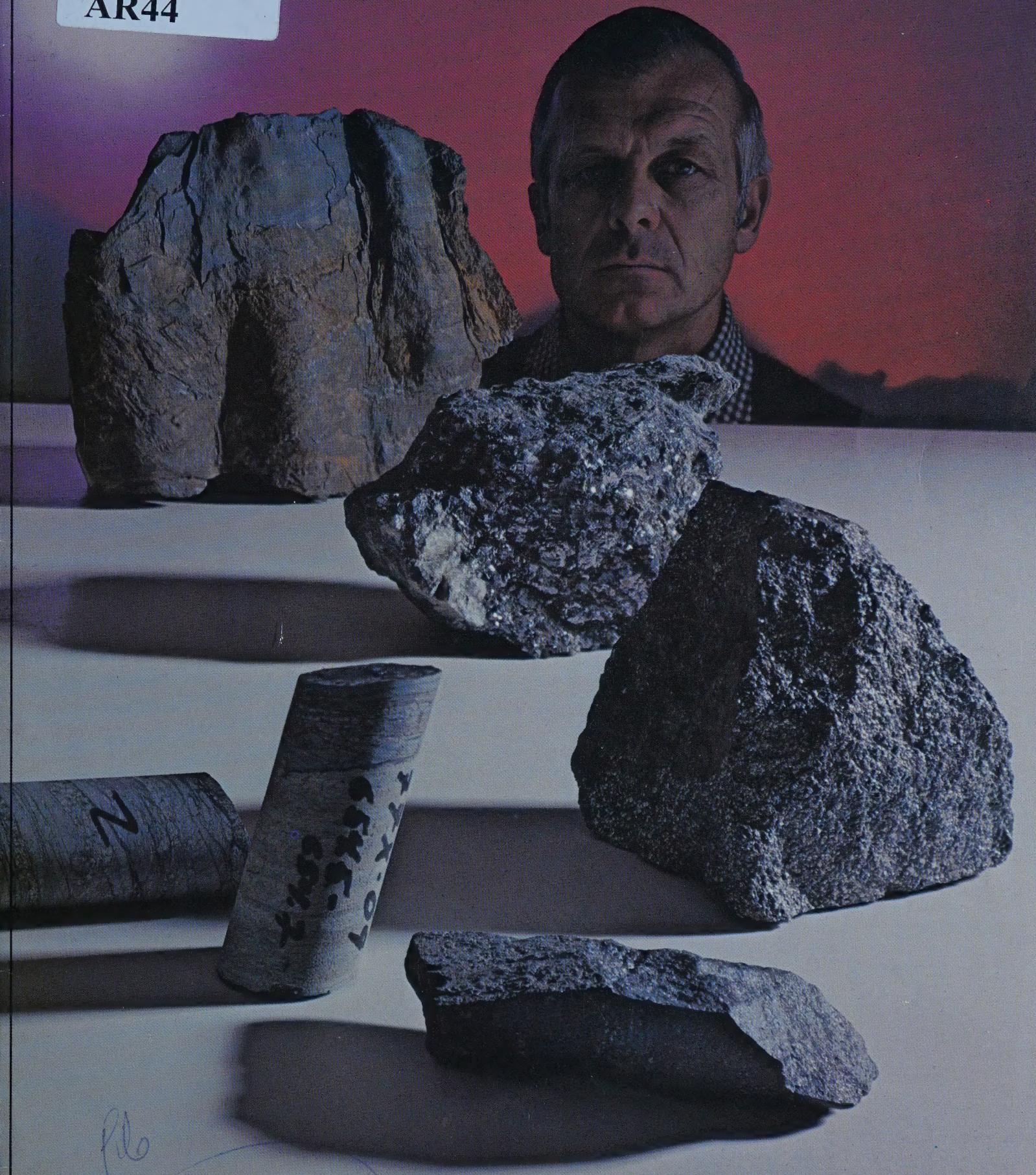
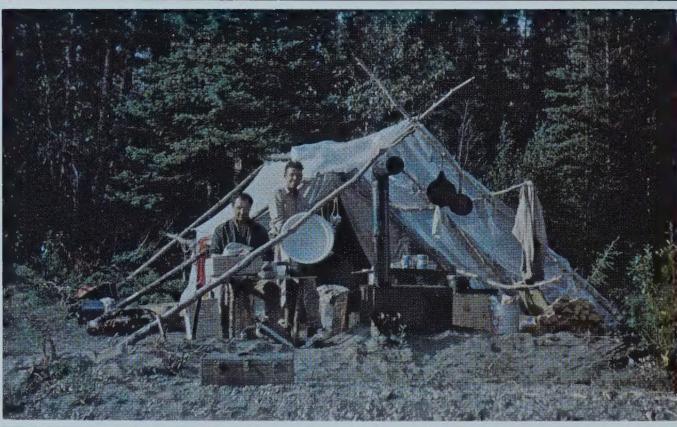
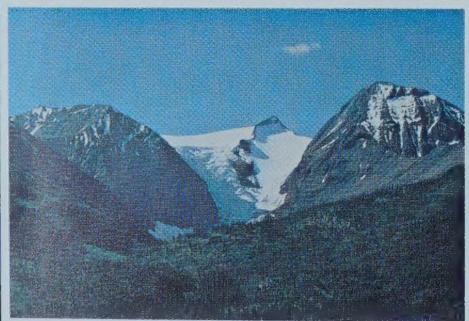


AR44



CYPRUS ANVIL

1977 ANNUAL REPORT



The search begins.
In remote areas of the Yukon, accessible only by float equipped aircraft, the prospector and geologist seek surface indicators of mineralization and conduct reconnaissance surveys

Annual Meeting

The Annual Meeting of the Company will be held on Friday, May 5th, 1978 at 2:30 p.m. in the Plaza Ballroom West, Hyatt Regency Hotel, Vancouver, British Columbia.

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Theme: Exploration

To enable Man to continue his ambitious search for 'a better world' — be it on Planet Earth or in the depths of Outer Space — he must first use his mind, aided by the tools he has designed to assist him, to detect and locate the vast wealth of minerals which lie hidden deep beneath the surface of the earth and which will be used to aid him on his journey.

Our cover depicts the culmination of the search for those minerals; the photographs throughout this Report tell the progressive story, from the prospector seeking meagre surface indications, through sophisticated geophysical and geochemical detection methods, to the final proving ground — drilling into the overburden and rock strata to pinpoint one more mineral deposit.



Claim staking and surveys are often carried out in winter

To Our Shareholders

The year 1977 was one of slow recovery under difficult conditions for Cyprus Anvil Mining Corporation. Production and sales recovered from a six-month shutdown caused by strikes in 1976, but net earnings were affected by rising costs and falling zinc prices as weak economic conditions continued in our international markets.

The company had net earnings of \$4,934,000 or 65¢ per share on sales of \$126,459,000 compared to a loss of \$1,449,000 or 19¢ per share on sales of \$56,666,000 in 1976.

The quantity of concentrates sold during the year was up sharply from that in 1976 and had a payable metal content of 145,670,000 pounds of lead, 226,355,000 pounds of zinc and 1,254,000 ounces of silver. The comparative quantities in the prior year were 65,963,000 pounds of lead, 103,250,000 pounds of zinc and 464,000 ounces of silver.

The company has successfully negotiated new long-term lead-zinc sales contracts with Toho Zinc Co., Ltd., and Mitsui Mining and Smelting Co., Ltd., both of Japan, and Metallgesellschaft A.G. of Germany for approximately 75 per cent of our planned production. The renewed contracts, despite weak markets, reflect our continuing strong relationships and premier supply position with these smelters.

A major capital expenditure program involving new equipment and facilities at the Faro mine was completed in 1977, utilizing a U.S. \$10,000,000 bank loan.

At our mining operations, concentrate production was below planned levels in the first half of the year. This was due to a maintenance backlog and shortage of qualified tradesmen resulting from the 1976 strike. By the second half of 1977, production had returned to normal levels as conditions were alleviated.

Negotiations were successfully concluded for wage rates in the final year of the three year labour contracts which expire in 1978. The two agreements, one with Production Workers and one with Office and Technical Workers provide for increases of

8.53% and 9.65% respectively, and are subject to approval by Canada's Anti Inflation Board.

During the year the company expended considerable effort aimed at improving relations with employees. Much of this was directed towards achieving better communication through such vehicles as our first Annual Report to Employees. Further steps will be taken to advise employees of the company's goals and objectives and to provide a means by which employee suggestions and contributions can be communicated to the company.

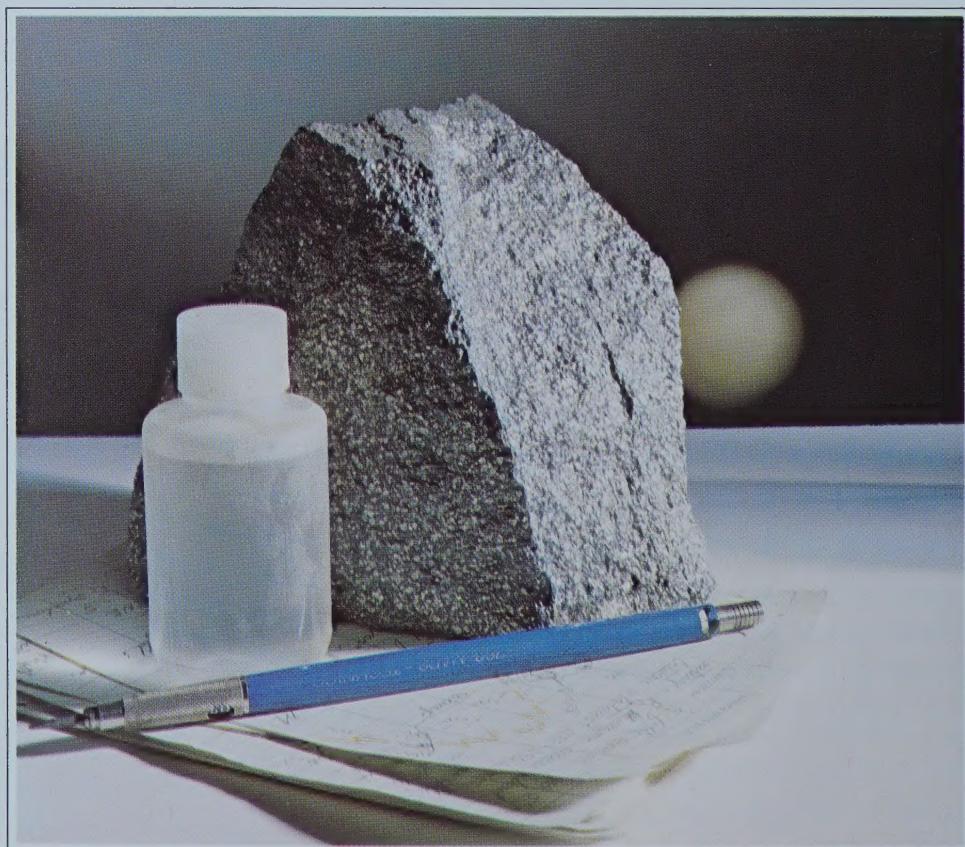
For 1978, one of Cyprus Anvil's major objectives is to improve productivity with the assistance of employees. We feel this should be a goal of all companies in Canada today, so that our competitive abilities in world and domestic markets are enhanced. Such a renewed dedication to improved productivity will benefit all who have a stake in successful enterprise, including shareholders, employees, customers and the community.

As part of these efforts, the company is examining the introduction of an incentive payment program for employees.

In our 1975 and 1976 annual reports we outlined the company's plans for growth, the focus of which was on an active exploration and acquisition program aimed at expanding the company's base of operations in Western Canada. The results of these efforts are now being realized and are more fully commented upon under the heading "Mineral Exploration" of this report.

Thus, through exploration and acquisitions we have expanded the company's base of activities, which was one of the objectives of the amalgamation.

Although the level of net earnings in 1977 was low, the company maintained its dividend rate of 60 cents per share. This was considered appropriate in view of our desire to provide a minimum level of return to our shareholders. However, because of substantial weakening of the zinc price



early in 1978, the first quarterly payment of dividends was not made and the matter will be reviewed later in the year.

Earnings levels in 1977 are clearly not satisfactory and must be improved. However, a substantial improvement can only be made with the strengthening of lead and zinc prices. This strengthening will come about because Cyprus Anvil and the mining industry generally must obtain more appropriate earnings levels in order to be sustained in the long term. If present levels do not improve, new mines will not be developed. The end result will inevitably be short supplies of metals, followed by urgent pressures for new mine development and skyrocketing metal prices for customers.

Such a scenario is not in the best interests of the communities and the economy that depend on mining to provide income and jobs, or of our international customers who depend on the industry for a steady supply of metals at reasonably stable prices. We believe this is now being recognized by governments and others who depend on our industry, and we are hopeful of improvement in the next several years.

The future is as difficult to predict as ever. Economic conditions world-wide are not buoyant, despite a strong market for housing and autos in the western world, especially the United States. While predictions abound concerning an upturn around the corner, in view of

past expectations, and resulting disappointments, it is difficult to see a major improvement in 1978.

In Canada, despite temporary help from a decline in the value of the Canadian dollar, the economy is still sluggish and performing well below its potential. This is also true of most industrial nations.

However, it must be borne in mind that economic conditions in the major industrial nations will improve, though the timing is difficult to predict. When the turnaround does come, we expect it will be sudden and swift, with resulting pressure on supplies and products. With its strong resource base and access to major markets, we believe Canada and your Company will be in a particularly favourable position to benefit.

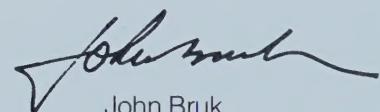
The outlook for the lead-zinc industry in the short term is unchanged. While lead continues in strong demand, zinc supplies are unusually high and prices too low. However, we believe we are at, or near, the low point of a down cycle and that improvement can be expected after 1978.

At our location in the Yukon, where a favourable climate fostered by government has encouraged the development of the mining industry, we face the prospect of considerable strain on labour and supply costs from construction of the Alaska natural gas pipeline. We are currently actively participating in discussions with government, labour and other groups in ef-

forts to maximize the positive benefits to the Yukon from the pipeline while minimizing its harmful impact on the indigenous mining industry.

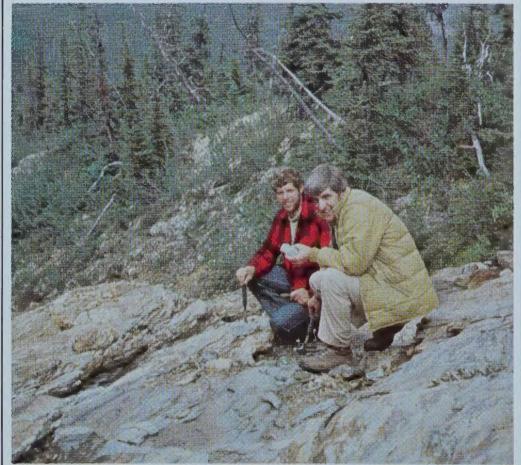
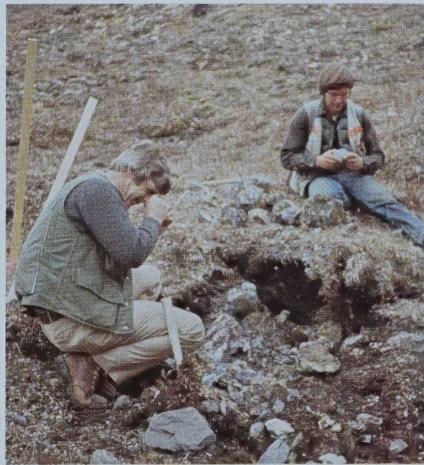
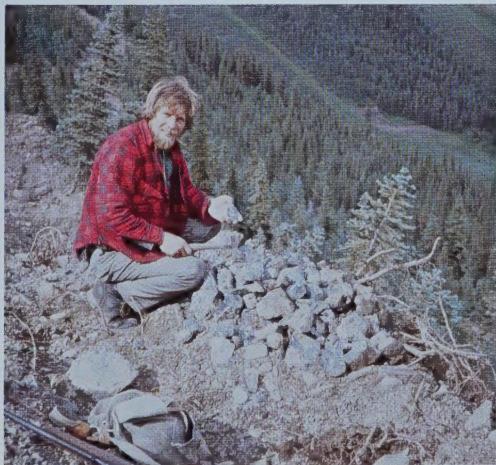
Three men who made significant contributions to the birth, development and growth of Cyprus Anvil Mining Corporation died in 1977. They were Aaro E. Aho, a director and major figure in the discovery of the Faro ore body; Charles H. Wills, a director and legal counsel; and Alan Kulan, co-discoverer of the Faro ore body and a man well known to Yukoners. They will be missed very much.

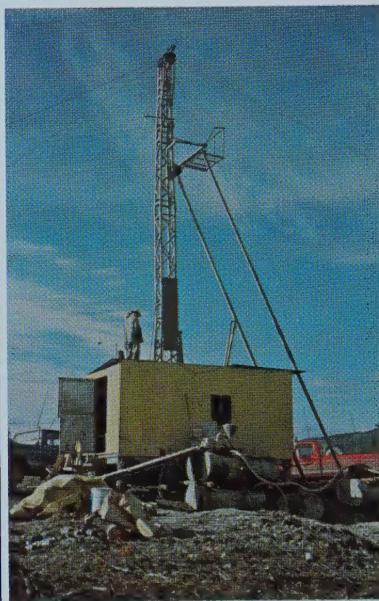
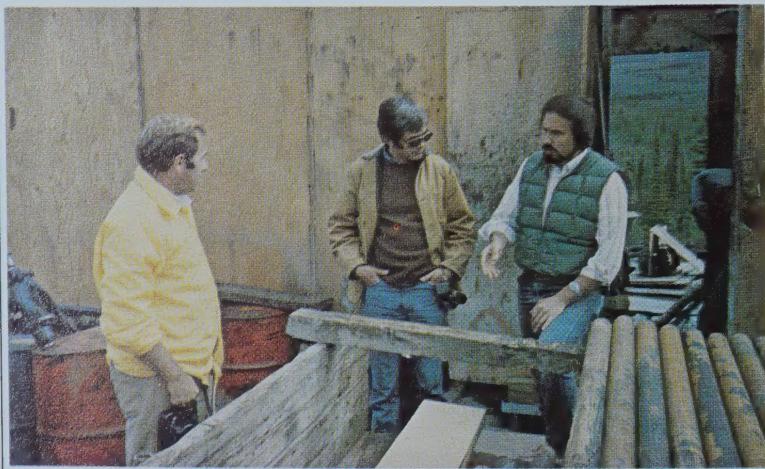
For 1978, our first objective is finding ways to improve our productivity by tapping the human resources of our employees. We believe this can be accomplished through better relations with employees and through determined and dedicated leadership of all concerned.



John Bruk,
President

Following up on surface indicators, geologists examine mineralization from trenching





Chief Geologist Dr. Dave Jennings explains DY core results to interested visitors

Drilling to depths of 2400 ft on the DY discovery

Mineral Exploration

Your Company continued a high level of exploration activity in 1977, directed principally at lead and zinc prospects within the Anvil District and in other areas of Yukon and northern British Columbia. Several coal projects in British Columbia and Yukon were investigated and significant programs were carried out on thermal coal at Tulameen and Carmacks.

The most exciting exploration results were those from the diamond drilling program on the DY deposit, located twelve miles southeast of the Anvil Mine and nine miles by road from Faro. This deposit represents a potentially substantial addition to reserves in the Anvil District.

Between April and December, eleven diamond drill holes were completed on the DY program, in addition to the initial discovery hole drilled in 1976. Of the total twelve vertical drill holes, eight intersected a sequence of banded and massive sulphide horizons containing lead-zinc-silver mineralization varying in aggregate thickness between 20 and 200 feet. The deposit occurs in a moderately dipping limb of a major antiform at between 1,800 and 2,400 feet below surface. Mineralization extends in excess of 5,000 feet along strike and varies in width up to at least 1,500 feet. Within the deposit, six drill holes encountered sections of 10 to 84 feet of greater than 11 percent combined lead-zinc; the best continuous assay section was 84 feet of 6.37 percent lead, 11.58 percent zinc and 115 grams per metric ton silver.

Much more drilling will be required to outline the deposit, establish reserves and provide detailed data for engineering study; however, the grade indicated in selected layers of mineable thickness could prove to be economic notwithstanding the depth of the deposit and underground mining methods that would be required. The economics of the deposit will be evaluated with a view to transporting ore to the existing concentrator to supplement lower grade open pit ore and thereby both extend the life of Faro operations and maintain a consistent level of concentrate output.

The next phase of drilling, starting in early 1978, will further delineate the deposit and will also test the favourable geological section to the southeast where prospects for the occurrence of additional deposits at lesser depth are excellent.

The program on the DY deposit was given top priority in 1977, and will again in 1978; however, exploration of other geologically favourable sections of the Anvil District is continuing. Extensive geophysical surveys were completed during the year in the Swim Lake section of the Anvil District and a drill program to test anomaly targets is planned in 1978. A drilling program to test extensions of rock units hosting the Faro deposit will be carried out in 1978.

A variety of programs, primarily directed at lead and zinc, were carried out in 1977 under joint venture agreements with major companies in a number of areas of Yukon and northern British Columbia. Participants in these programs include Hudson's Bay Oil and Gas Company Limited, Metallgesellschaft AG, Preussag AG, and Kerr Addison Mines Limited. As a result of these programs, a number of new properties have been acquired and new targets defined which will be the subject of more intensive investigation in 1978.

Over the past two years your Company has investigated a number of thermal and metallurgical coal project opportunities in Western Canada. As a result of these investigations and changes in coal market conditions, priority has been given this past year to increased exploration for thermal coal.

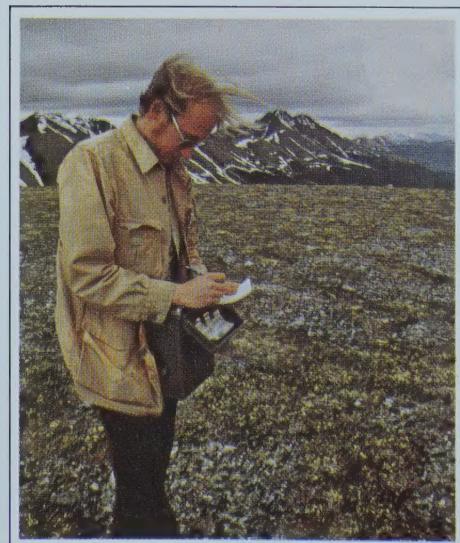
A diamond drilling and bulk sampling program was carried out on the Tulameen thermal coal project in southern British Columbia on licences optioned from Imperial Metals & Power Ltd. These licences are located adjacent to rail transportation 270 rail miles from Vancouver. Drilling and geological data have indicated a 50 to 60 foot thick seam of low sulphur thermal coal of which approximately 10 million met-

ric tons could be mined by open pit methods at a strip ratio of 2.8 cubic metres per metric ton of coal. Much more substantial reserves are indicated should underground mining methods prove feasible in the future. Preliminary tests have shown that the coal can be washed to produce a marketable product and further studies are currently underway to evaluate engineering and economic factors that are important to the feasibility of the project.

Exploration work continued in the area of the Carmacks coal mine, which is the source of coal for concentrate drying and plant heating at the Anvil Mine. This program has indicated ample reserves for existing use, as well as additional potential should other markets develop within the Yukon.

During the year, acquisition of the Torrens metallurgical coal project in Alberta was completed. Continuing regulatory difficulties have, however, prevented further exploration from being undertaken. Despite these difficulties and the present poor market conditions for metallurgical coal, the leases owned by your Company represent a very substantial asset for future development.

Magnetic survey to aid geological interpretation





Operations

1977 was the eighth year of operation for Cyprus Anvil's lead/zinc silver mine near Faro, Yukon, and operations continued without interruption during the entire year on a seven day per week, 24 hour per day basis.

Mine production totalled 8,500,181 cubic yards, of which 7,518,808 cubic yards was waste stripping. A total of 3,434,806 tons of ore was milled during the year, for an average daily throughput of 9,410 tons. The grade of mill feed was 2.74% lead and 4.88% zinc, for a total combined feed grade of 7.62%. Concentrates produced during the year were: lead 110,660 dry short tons; zinc 243,422 dry short tons; bulk concentrate 40,625 dry short tons.

The effects of the long strike, during the second half of 1976, and its attendant startup problems carried forward into the early part of 1977. The backlog of maintenance work and the shortage of qualified tradesmen for concentrator maintenance adversely affected mill tonnage throughput but, by the second quarter, the situation had improved and during the last half of the year the tonnage milled in the concentrator was at designed capacity. Metallurgical performance in the concentrator was good and, overall, was slightly better than that projected for the year. The mill feed grade was lower than planned and this resulted in proportionately lower concentrate output. This also was due mainly to the strike in 1976, as a result of which certain areas of higher grade ore originally planned to be mined were not developed in time to be milled in 1977. These areas will be developed for 1978 and a significant increase in mill feed grade and concentrate production is anticipated.

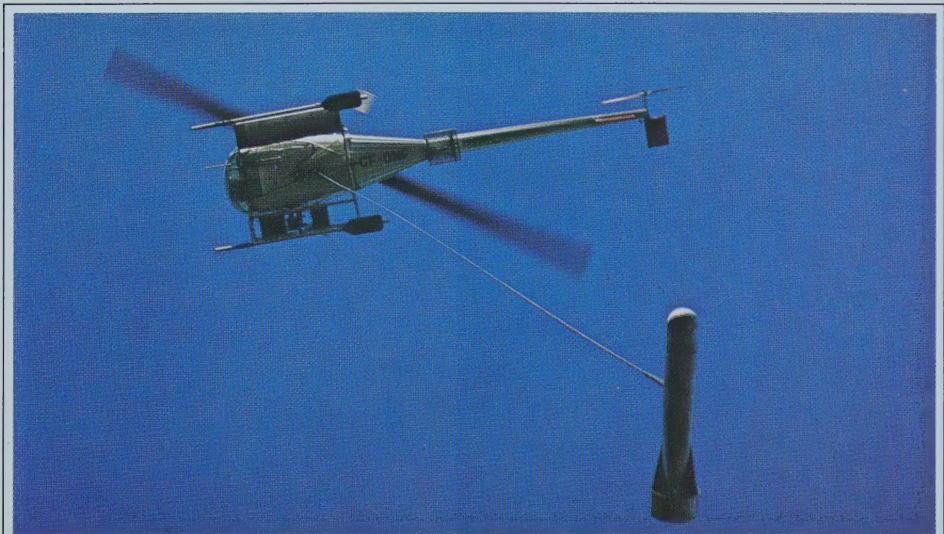
New and larger mining equipment was placed into service during the second quarter of 1977 and included two new 15 cubic yard power shovels and the balance of the 120 ton haulage truck fleet. The older, smaller equipment was phased out. Except for waste encountered in the process of ore mining, all waste removal is now being performed with the new equipment which, aside from the normal startup problems, has performed well. Construction of the related expansion of the maintenance shop and warehouse to service the new equipment had commenced in 1976 but was interrupted by the work stoppage and was completed late in 1977.

Other major capital programs included substantial revisions to the heating and ventilation systems in the concentrator building to improve dust control and improve the working environment. This work has been completed and is working very successfully.

Negotiations commenced in September under the wage reopening clauses for the third and last year of the current collective bargaining agreements with the Production Group and the Office and Technical Group. In early December, an agreement was concluded with the Office and Technical Group, and in January of 1978, an agreement was signed with the Production Group. The terms of both agreements require the approval of the Anti-Inflation Board.

Ore reserves at the end of 1977 were estimated to be 41.3 million tons with an average grade of 8.6% combined lead and zinc with approximately one ounce of silver per ton. A re-evaluation of the ore reserves will be completed in 1978 but no material change is anticipated.

The new, larger mining equipment introduced in 1977 resulted in a 24% reduction in unit mining costs compared to 1976 and should be further reduced in 1978 when the beneficial impact of the new equipment will be experienced over a full year of operation. Cost of supplies continued to escalate during the year and the management and staff are dedicated to a program of cost saving and efficiency to counteract this upward trend.



The search continues with bulldozer trenching and airborne geophysical surveys

Financial and Marketing

Our Company continues to face the future with a strong financial base which will enable us to proceed toward our goals notwithstanding the current difficult economic situation. Several factors significantly influenced our 1977 profit of \$4,934,000.

— Lower than anticipated mill feed grades, primarily of lead, which decreased our participation in a period of strong demand and higher prices.

— The sharp drop in zinc prices.

— Continued cost escalation.

Offsetting these negative factors were the weakened Canadian dollar and higher lead prices. Working capital at the end of 1977 was \$13,171,000.

Acquisition of the Torrens coal project, for a total consideration of \$3,991,000 was completed in 1977. Your Company now controls two subsidiaries, Kakwa Mines Ltd. (Torrens) 100% owned and Pelly River Mines Ltd. (N.P.L.) of which we own 62.86%. Consolidated financial statements incorporating these two companies are presented for the first time in 1977.

The Company changed its principle of accounting for mineral exploration expenditures in 1977 and has applied the new policy retroactively. This change, which is explained in the Notes to the Consolidated Financial Statements, reflects a more conservative accounting treatment of exploration expenditures and anticipates future changes in generally accepted accounting practice.

The federal income tax returns of the Company for the years 1965 to 1975 came under routine examination by Revenue Canada in 1977 and some issues were still under discussion at the year end. Appropriate provision for past taxation has been made in the accounts.

The effect of the change in exploration accounting policy and of the adjustment in respect of past taxation is reflected in a net reduction of retained earnings of \$4,127,000.

Looking forward to 1978, higher mill feed grade can be anticipated and, though inflationary pressures continue to affect most cost areas, mining costs should be further reduced reflecting the full impact of the new larger mining equipment. The U.S. \$10,000,000 equipment loan, arranged in 1976, was used to complete the purchase of the larger mining equipment. Also, introduction of a new transportation mode by White Pass & Yukon Route will stabilize our inland transportation costs.

The difficulties being experienced by the zinc industry, which began in 1975, worsened in 1977; for the first time since our Company commenced mining operations the European Producer Price, which is the basis for our sales, declined. The decrease in the price of zinc, from 36.4¢ at the end of 1976 to 29.8¢ at the end of 1977, reflected the continuing world-wide slowdown in economic activity. World zinc metal inventories continued to



increase as production levels materially exceeded consumption. Some smelter production cutbacks were made during the latter half of 1977 but developments in early 1978 have indicated that these production cutbacks were not sufficient to bring stability to the zinc market and the price has fallen even further. Some smelters have announced further cutbacks and it is anticipated that the supply and demand picture for zinc metal will come into balance during 1978.

The action taken by the smelters was not matched by reduced mine production with the result that more zinc concentrate is being produced than is being consumed by the smelters. Inventories of concentrate are therefore increasing and treatment charges required by the smelters have increased substantially. Without a significant world-wide economic recovery, it is difficult to foresee improvement in the zinc market during 1978.

During 1977, virtually all of our concentrate production was shipped to smelters located in Japan, Germany, England, France, United States and the Soviet Union. Most of these shipments were made under long-term sales agreements with Toho Zinc Co., Ltd., Mitsui Mining and Smelting Co., Ltd., both of Japan, and Metallgesellschaft A.G. of Germany. New sales contracts for periods between three and six years have been entered into with the aforementioned smelting companies providing for the yearly sale of 102,000 DMT lead concentrate, 191,000 DMT zinc concentrate, and our total bulk concentrate production which is anticipated to be approximately 35,000 DMT. Smelting charges negotiated under these contracts are slightly better than previously obtained for lead and for bulk concentrate, but are considerably increased for zinc. Offers from other purchasers for additional quantities of lead and zinc concentrates are being evaluated.

A new long-term agreement was concluded in 1977 with White Pass & Yukon Route for the movement of our concentrates from the minesite to Skagway which contemplates a new mode of truck transportation. With this new mode, two smaller containers, instead of one, comprise a truck unit resulting in a substantial increase in the payload carried by each unit. Some of the savings generated by this concept are reflected in our new transportation rates.

Early in the year our shipping agency arrangement with Marcona Corporation was discontinued. We have now undertaken the detailed arrangements for our own ocean transportation and advantage has been taken of the currently favourable ocean freight rates which are expected to continue during 1978.

The proving ground — the drill site. The drill core confirms or disproves the existence of a potential ore body



Dr. Aaro E. Aho – Mine Finder

10

"The whole exploration business requires a combination of continued optimism and hard work in the face of disappointments. If you can continue to assert yourself and persevere, you get a greater exposure to the probability of success. There is every indication that the Yukon must contain more billion-dollar deposits to be discovered."

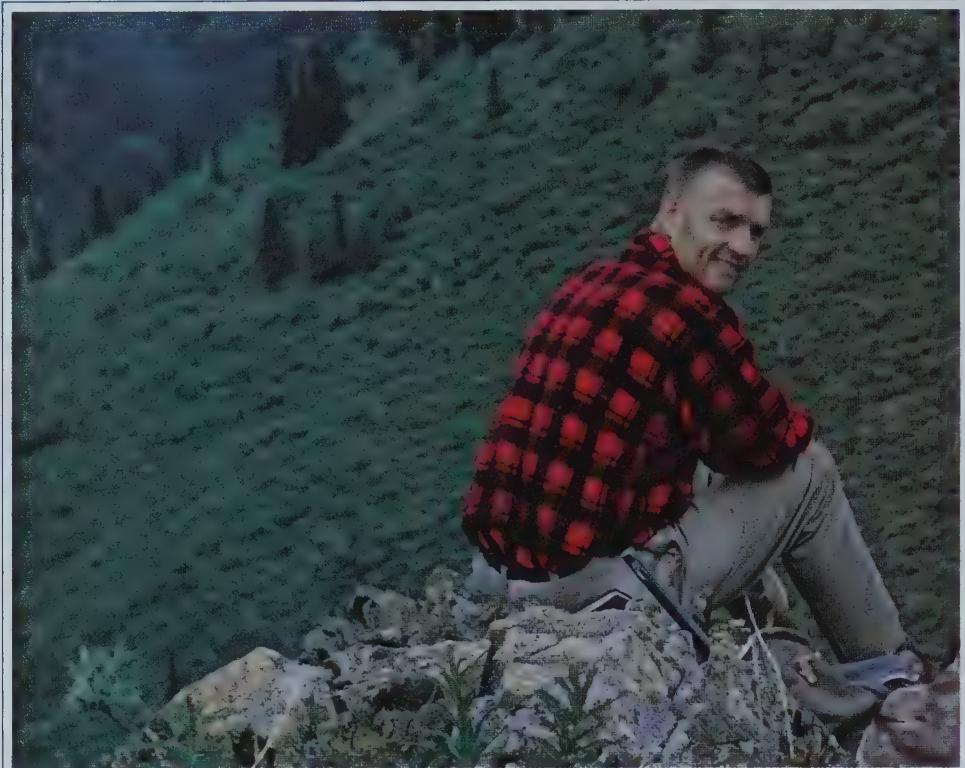
In those words, Dr. Aaro E. Aho expressed the beliefs and the desires which guided his life's work. But they were not mere words; he gave them substance.

His was an innovative approach to exploration. He took giant steps; tried untested methods; readily adopted new approaches. Where the more timorous hesitated, Aaro Aho saw only opportunity for the expansion of knowledge. And to those who worked with him and for him, he imparted the same practical faith and sense of purpose which he generated within himself.

Dr. Aho's competence and intuition in the field of exploration was matched by an enormous capacity for hard work and physical endurance. His disappointments, and he had many, neither dampened his enthusiasm nor lessened his optimism. Rather, Aaro Aho regarded each set-back as a new lesson learned, a stimulation to further effort. It was this determination and his assurance that the goals he set for himself were achievable, that brought him the success which he so richly deserved.

Aaro Aho — The Professional

Aaro E. Aho was born of Finnish-Canadian pioneer parents in 1925 and spent his youth on the family farm near Ladysmith, B.C. His love of applied science and the outdoors led him to choose geological engineering as a profession in which he graduated with



Dr. Aaro E. Aho in the Yukon

The Anvil Mine — his greatest achievement

B.A. and B.A.Sc. degrees from the University of British Columbia in 1949. He gained his Ph.D. following studies in petrology, mineral deposits, structure and volcanology in 1954 from the University of California, Berkeley, California. Following his studies at Berkeley, he lectured at Oregon State University.

Dr. Aho published more than a dozen technical papers and compiled a history of the rich silver discoveries of the Mayo District of the Yukon. He served on the Senate of University of British Columbia from 1969 to 1975 and was a member of the Association of Professional Engineers of British Columbia and of the Yukon, the Canadian Institute of Mining and Metallurgy, the Geological Society of America, the Geological Association of Canada, the B.C. and Yukon Chamber of Mines, the Yukon Chamber of Mines and the Prospectors and Developers Association.

Aaro Aho — Minefinder

Aaro Aho began his long association with the Yukon in 1946 while still a student. Challenged by its mineral potential and guided by a conviction that major deposits were to be found there, he explored and prospected the Yukon almost continuously until his untimely death. He strongly believed that the key to full development of the Yukon lay in its yet undiscovered mineral wealth and devoted himself to furthering that development.

Aaro Aho was the principal founder in 1964 of Dynasty Explorations Ltd., which was organized to carry out an exploration program in, what is now, the Anvil District of the Yukon. In the following year a joint venture was arranged between Dynasty and Cyprus Mines Corporation of Los Angeles to provide the financing for an expanded program. From this joint venture grew a firm and mutually rewarding relationship between the two companies which was solidified in 1975 with the formation of Cyprus Anvil Mining Corporation.

It was this program which resulted in the discovery of the Anvil Mine, one of the five largest lead/zinc/silver mines in the world. Aaro Aho readily acknowledged that the discovery was the result of excellent team work and the combined effort of many people. Everyone involved in that great event, however, attributed the largest measure of credit to Aaro Aho for his leadership, persistence and plain doggedness in the face of seemingly impossible odds.

The discovery itself was attributable to the recognition that there was a high probability that major lead/zinc deposits occurred in an identified regional geological setting, coupled with the confidence and conviction to carry out a systematic integrated exploration program not before used in Western Canada.

In 1964 Aaro Aho conceived and organized a district-wide program of saturation exploration consisting of geophysical, geochemical and geological surveys and prospecting which defined numerous anomalies which then became the subject of intensified examination. One of these anomalies — and one of the last to be tested — proved to be the 63 million ton Anvil lead/zinc/silver deposit.

With successful culmination of the giant Anvil development, Aaro Aho's dreams to open up the hinterland of Yukon were realized. The Klondike had been the golden beginning; Keno Hill, Cassiar and Whitehorse Copper were the sustenance over the years; but the Anvil Mine was the key to major future developments. The Klondike, notwithstanding the immensity of its monetary value, was of short duration. Although at its height it drew an estimated one hundred thousand 'stampeder's' to the Yukon, by the early 1900's few of them remained even though some residual mining, mainly of silver, continued.

By contrast, the Anvil Mine which accounts for the largest portion of the Yukon economy has, hopefully, brought lasting benefits to the Yukon. It has engendered, and caused to be filled, the need for improved communication and transportation. It has encouraged the development of new business to meet the ever-increasing demands of a growing population which, with greater assurance of extended and expanded work opportunities, is becoming increasingly stable.

Aaro Aho's discovery of the Anvil Mine had spurred the search for new large mineral deposits in the Yukon. It stimulated further developments in exploration techniques and encouraged new participants into the field of

Exploration for silver in the Hess River area of the Yukon. Mt. Aho in the far background



exploration and development in that largely undeveloped Territory.

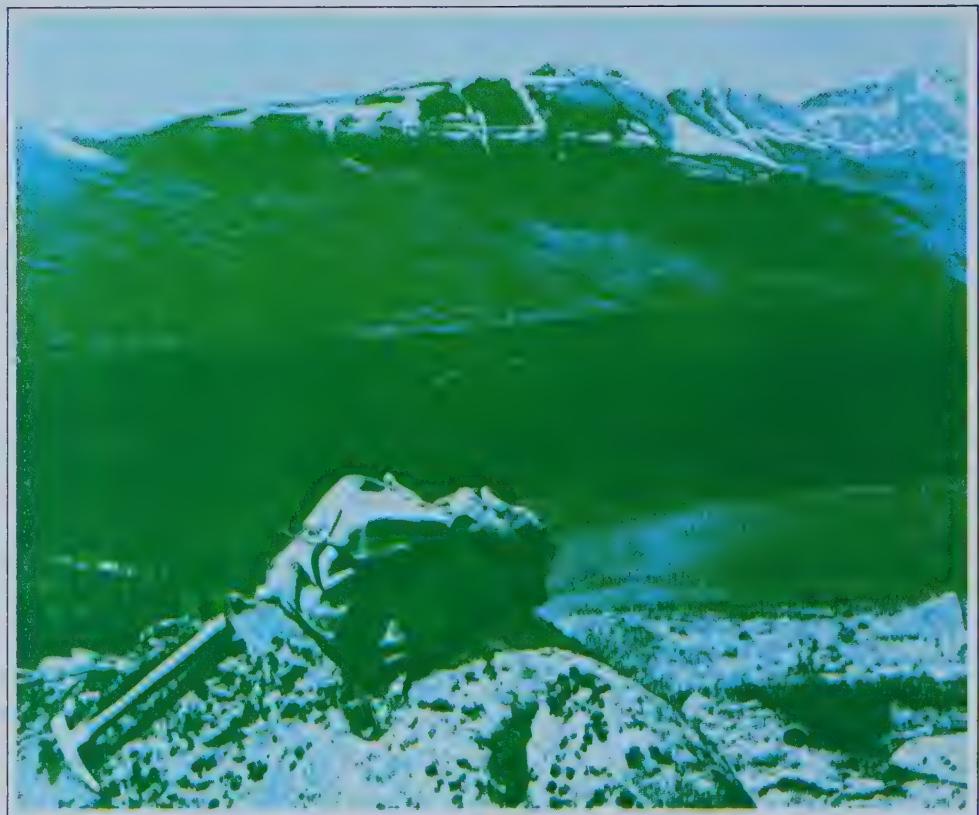
Then, in 1974, Aaro Aho opened a new vista for potential development of the Anvil District. Following the discovery of the Anvil Mine he found himself, to his great chagrin, becoming increasingly involved in corporate matters. Confident in the knowledge that the development of the mine was in good hands and seeking an outlet for his restless energy, he was urged by his friends and close associates to return once more to the field work in which he found his greatest satisfaction. He had long considered the Grum Claims, nine miles southeast of the Anvil mine, to have considerable potential and a new company, AEX Ltd., was formed to undertake further exploratory work under a joint venture arrangement with the claim owners Kerr Addison Mines Ltd.

Aaro Aho began drilling on the Grum property and then — ignoring earlier assumptions that potentially economic deposits in the District must be near surface — he continued drilling well beyond any depths previously drilled in the Yukon. At twelve hundred feet, with the assurance which was his enduring gift, he struck what he intuitively knew was there — another rich lead/zinc deposit, the 30-million ton Grum deposit.

This innovative approach, the kind which brought him renown as a mine-finder, also contributed in large measure to the successful DY lead/zinc discovery at a depth between 1,800 and 2,400 feet by the Cyprus Anvil exploration team in 1976.

Aaro Aho — In Memoriam

Aaro Aho's interests were not limited to practical exploration. He began his career as a teacher and though he could not be termed a frustrated academic — only inactivity frustrated him — he retained his interest in students throughout his life.



Students, and student development, were ever present in his vision of the Canadian future and most particularly of the future of the Canadian north. Recognizing the need for better facilities for learning — a recognition gleaned from long conversations with students working with him on his numerous northern exploration programs — he spearheaded the capital fund drive to build the new Earth Sciences Building which was opened in 1972 at the University of British Columbia.

To memorialize Dr. Aho's contributions to the expansion of geological knowledge and his excellence as a practical explorationist, a group of his friends and colleagues established the Dr. Aaro E. Aho Foundation as a perpetual fund to provide scholarships and assistance to undergraduate and postgraduate students and to special research on frontiers of geological sciences.

In recognition and lasting memory of Dr. Aho, Cyprus Anvil has donated \$50,000 to the fund and has dedicated itself to building upon the strong foundation which he had so assiduously laid for us.

Our Annual Report for 1976 contained a 'Salute to the Discovery of the Yukon'. It was written by Dr. Aho a few months before his tragic death in May 1977 at the age of fifty-one.

He did not mention his own part in the unfolding history of the Yukon yet he was as much a part of that story as any man before him. His love of its scenic grandeur and of its people was an enduring one. His faith in its development and future fulfilment was unbounded. He gave practical expression to that faith by devoting himself to the search for its immense mineral resources and crowned those efforts with unprecedented success.

His dedication, perseverance, intuitiveness and innovative mind garnered a legacy which will benefit all of us and established a standard of achievement which will ever be worth emulating.

Five Year Review

13

Financial*	1977	1976	1975	1974	1973
Total Revenues (\$000s)	126,459	56,666	157,877	128,463	112,908
Net Income (Loss) (\$000s)	4,934	(1,449)	18,380	24,305	20,677
Per Share (\$)	0.65	(0.19)	2.41	3.19	2.72
Shareholders Equity (\$000s)	74,524	74,159	80,177	66,366	42,202
Per Share (\$)	9.79	9.74	10.53	8.71	5.54
Working Capital (Deficit) (\$000s)	13,171	10,468	18,841	6,006	(2,259)

*Results for 1976 and prior years are restated to reflect changes in accounting policy. Refer to Notes 2 and 9 to Consolidated Financial Statements.

Production

Ore Milled — Dry Short Tons (000s)	3,435	1,675	3,225	2,925	2,899
Average Grade of Ore Milled % Combined Lead and Zinc	7.62	8.14	9.44	10.11	11.25
Concentrates Produced					
Lead — Dry Short Tons	110,660	47,863	145,453	148,517	156,732
Zinc — Dry Short Tons	243,422	126,628	230,494	207,437	233,049
Mixed Lead and Zinc — Dry Short Tons	40,625	27,141	77,113	72,294	79,197

Marketing

Payable Metal Sold					
Pounds of Lead (000s)	145,670	65,963	264,943	192,743	186,973
Pounds of Zinc (000s)	226,355	103,750	254,834	174,034	239,728
Ounces of Silver (000s)	1,254	464	3,335	2,451	2,160
Average Prices During Year					
Per Pound of Lead	30.1¢	20.4¢	19.2¢	26.2¢	19.5¢
Per Pound of Zinc	34.7¢	35.6¢	37.5¢	34.5¢	23.9¢
Per Ounce of Silver	\$4.88	\$4.25	\$4.49	\$4.58	\$2.55

Consolidated Balance Sheet

14

Cyprus Anvil Mining Corporation Consolidated Balance Sheet as at December 31, 1977

Assets	1977	1976
	\$	\$
	(000's)	(000's)
Current Assets		
Cash and short-term deposits	1,326	725
Accounts receivable	632	452
Income taxes recoverable		3,907
Concentrate settlements receivable	11,267	1,191
Concentrate inventory	3,776	5,406
Supplies, at cost	4,958	4,819
Prepaid expenses	195	442
	22,154	16,942
Mineral properties (notes 1, 2, 3 and 4)	8,893	4,813
Fixed assets (notes 5 and 7)	63,908	57,519
Deferred costs (notes 1 and 6)	22,331	22,757
	117,286	102,031

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Cyprus Anvil Mining Corporation as at December 31, 1977 and the consolidated statements of earnings, retained earnings and source and use of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We previously made a similar examination for the year ended December 31, 1976.

Vancouver, B.C.
January 16, 1978

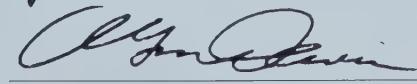
In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the source and use of its working capital for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for mineral exploration expenditures referred to in note 2 to the financial statements, on a basis consistent with that of the preceding year.

Coprus & Hyland
CHARTERED ACCOUNTANTS

Liabilities	1977	1976
	\$ (000's)	\$ (000's)
Current Liabilities		
Accounts payable and accrued liabilities	5,883	3,661
Income taxes payable (note 9)	2,250	2,250
Current portion of long-term debt (note 7)	758	108
Current portion of deferred income taxes (note 9)	92	455
	8,983	6,474
Long-term debt (note 7)	16,987	5,195
Deferred income taxes (note 9)	16,727	16,138
Minority interest in subsidiary company	65	65
	42,762	27,872
Shareholders' Equity		
Capital stock (note 8)	3,461	3,461
Contributed surplus	4,067	4,067
Retained earnings	66,996	66,631
	74,524	74,159
	117,286	102,031

Signed on behalf of the Board


John Smith
Director


Alan Johnson
Director

The accompanying notes are an integral part of this statement.

Consolidated Statement of Earnings

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Cyprus Anvil Mining Corporation Consolidated Statement of Earnings for the year ended December 31, 1977

	1977	1976
	\$	\$
	(000's)	(000's)
Concentrate Sales	126,459	56,666
Deduct: Ocean freight, treatment and related charges	55,927	26,005
	<hr/>	<hr/>
	70,532	30,661
Operating Expense		
Production, inland transportation and port costs	47,437	25,751
Administration and general	9,055	6,931
Depreciation	4,637	2,163
Amortization	1,483	793
(AIncrease) decrease in product inventory levels	1,630	(3,965)
	<hr/>	<hr/>
	64,242	31,673
Operating income (loss)	<hr/>	<hr/>
	6,290	(1,012)
Other expense (income)		
Interest income	(186)	(135)
Interest on long-term debt	1,032	446
Other interest	6	12
Gain on disposal of assets	(10)	(10)
Exploration (note 2)	601	402
Foreign exchange	(346)	439
	<hr/>	<hr/>
	1,097	1,154
	<hr/>	<hr/>
	5,193	(2,166)
Provision for (recovery of) income taxes and Yukon royalty		
Income taxes (note 9)	226	(717)
Yukon royalty	33	
	<hr/>	<hr/>
	259	(717)
Net earnings (loss) for the year (note 2)	<hr/>	<hr/>
	4,934	(1,449)
Earnings (loss) per share (note 2)	<hr/>	<hr/>
	\$.65	\$(.19)

The accompanying notes are an integral part of this statement.

Consolidated Statement of Retained Earnings

17

Cyprus Anvil Mining Corporation Consolidated Statement of Retained Earnings for the year ended December 31, 1977

	1977	1976
	\$	\$
	(000's)	(000's)
Retained earnings — beginning of year		
As previously reported	70,758	76,595
Less: Adjustments of prior years' income taxes (note 9)	1,939	1,905
Write-off of exploration expenditures, net of income taxes of \$637,000 (1975 and prior — \$564,000) (note 2)	2,188	2,041
	4,127	3,946
As restated	66,631	72,649
Net earnings (loss) for the year (note 2)	4,934	(1,449)
	71,565	71,200
Dividends (note 10)	4,569	4,569
Retained earnings — end of year	66,996	66,631

The accompanying notes are an integral part of this statement.

Consolidated Statement of Source and Use of Working Capital

Cyprus Anvil Mining Corporation Consolidated Statement of Source and Use of Working Capital for the year ended December 31, 1977

	1977 \$ (000's)	1976 \$ (000's)
Source of working capital		
From operations		
Net earnings (loss) for the year	4,934	(1,449)
Items not affecting working capital —		
Depreciation	4,637	2,163
Amortization	1,483	793
Deferred income tax	589	2,637
Deferred waste removal	(885)	43
	<hr/> 10,758	<hr/> 4,187
Notes payable	1,300	
Bank loan	10,510	
Advances from minority interest shareholders	59	20
	<hr/> 22,627	<hr/> 4,207
Use of working capital		
Dividends	4,569	4,569
Long-term debt reduction	77	190
Fixed asset additions	11,025	6,637
Mineral properties	4,141	1,184
Other deferred costs	112	
	<hr/> 19,924	<hr/> 12,580
Net increase (decrease) in working capital	2,703	(8,373)
Working capital — beginning of year (note 14)	10,468	18,841
Working capital — end of year	13,171	10,468
Represented by:		
Current assets	22,154	16,942
Current liabilities	8,983	6,474
Working capital — end of year	<hr/> 13,171	<hr/> 10,468

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

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for the year ended December 31, 1977

1. Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and its subsidiary companies which are:

	Percentage ownership	
	1977	1976
	%	%
Pelly River Mines Limited (N.P.L.)	62.86	62.86
Kakwa Mines Ltd.	100	34.51

Acquisitions of subsidiaries have been accounted for by the purchase method. The excess of cost over the underlying net book value of subsidiaries at the date of acquisition is capitalized and allocated to the assets giving rise to the excess cost. If the assets themselves are being amortized, the excess cost is amortized on the same basis. The accounts of Pelly River Mines Limited (N.P.L.) were not previously consolidated since they were not considered material; however, the 1976 figures have now been restated to reflect their consolidation.

(b) Concentrate Sales and Settlements Receivable

Concentrate sales and settlements receivable are recorded at the metal prices, weights and assays available at the year end. Final prices, weights and assays are not known on a portion of the sales until some time after the year end; accordingly amounts ultimately received may vary from those recorded.

(c) Concentrate Inventory

Concentrate inventory is valued at the lower of average cost, on an annual FIFO basis, or estimated net realizable value. Average cost for each type of concentrate is determined on the joint product costing basis using relative sales values for proration of costs which includes all production costs and appropriate depreciation, amortization and general and administrative costs, being the full absorption method of inventory cost determination.

(d) Depreciation and Amortization

Depreciation and amortization are calculated on the basis of the shorter of estimated useful life or pounds of metal produced in relation to total estimated marketable pounds of metal available from the ore body.

(e) Exploration Costs

The company expenses all exploration costs in the period in which they are incurred. Exploration costs include the cost of properties not yet in the development stage.

(f) Mineral Properties and Related Development Costs

The company defers exploration and development costs at such time as it is determined that there is a reasonable degree of certainty as to the existence of

economically recoverable mineral reserves within a defined area of interest. All costs will be amortized against future production from that area or written off if the property is abandoned or sold.

(g) Deferred Costs

(i) Preproduction

Preproduction costs represent all costs of bringing the mine into production, including development costs but excluding fixed assets. Preproduction costs are deferred and are amortized on a unit of production basis.

(ii) Waste removal

Removal of waste is charged to production based on a waste-to-ore ratio for the life of the mine. Deferred waste removal costs arise when the waste-to-ore ratio exceeds the estimated average for the life of the mine. When the removal of waste is less than the estimated waste-to-ore ratio for the life of the mine a provision for future removal costs results.

(h) Foreign Currencies

Foreign currencies have been converted into Canadian dollars as follows: current assets and current liabilities at rates in effect at the end of the year; non-current assets and liabilities and revenue and expense items at approximate rates in effect at dates of transactions.

2. Change in Accounting Policy

In 1977 the company changed its accounting policy with respect to mineral exploration expenditures (note 1). This change has been applied retroactively in the accounts. Formerly, the policy was to defer such expenditures incurred during the exploration period and charge them to income if the related property was abandoned.

The retroactive change in policy has the effect of charging to income of prior years \$2,825,000 of exploration expenditures, less an income tax recovery of \$637,000, resulting in a net decrease in retained earnings of \$2,188,000 at December 31, 1976. \$220,000 of these exploration expenditures, less an income tax recovery of \$73,000, applies to 1976 and increases the loss for that year by \$147,000 (\$.02 per share) and the 1976 comparative figures have been restated to reflect this change. \$2,605,000 of exploration expenditures, less an income tax recovery of \$564,000, applies to 1975 and prior years and decreases retained earnings at December 31, 1975 by \$2,041,000.

Had the previous policy been in existence for the current year, the total exploration expenditures charged to income in 1977 would have been \$827,000 resulting in a decrease of provision for income taxes of \$23,000 and a decrease in net earnings for the year of \$203,000 (\$.03 per share) from that reported.

3. Acquisition

On April 29, 1977 the company exercised an option and acquired the balance of the outstanding shares of Kakwa Mines Ltd. The total consideration for all of the shares is \$3,991,083 including \$1,950,000 of promissory notes (note 7(b)).

Net assets acquired are as follows:	\$	
Coal leases		20,000
Deferred development, exploration and administrative costs		110,464
		130,464
Less: Current liabilities less current assets		14,736
Net assets acquired		115,728
Investment at effective date of purchase		3,991,083
Excess of cost of net assets acquired attributed to coal leases		3,875,355

4. Mineral Properties

	1977 \$ (000's)	1976 \$ (000's)
Mineral properties and related development at cost	9,174	5,033
Less: Accumulated amortization	281	220
	8,893	4,813

5. Fixed Assets

	1977		1976	
	Accumulated Cost \$ (000's)	Depreciation \$ (000's)	Net \$ (000's)	Net \$ (000's)
Mine buildings, machinery and equipment	71,742	19,826	51,916	40,543
Construction in progress	894		894	5,200
Townsitc buildings and equipment	14,486	3,388	11,098	11,776
	87,122	23,214	63,908	57,519

6. Deferred Costs

	1977 \$ (000's)	1976 \$ (000's)
Preproduction — at cost	33,902	33,902
Other deferred costs	112	
	34,014	33,902
Less: Accumulated amortization	11,118	9,695
	22,896	24,207
Waste removal	(565)	(1,450)
	22,331	22,757

7. Long-Term Debt

	1977 \$ (000's)	1976 \$ (000's)
8½% - 11¾% mortgages secured by townsitc buildings, repayable in varying annual amounts to the year 2000	5,094	5,171
Non-interest bearing notes payable	1,950	
Bank Term Loan (\$10,000,000 U.S.)	10,510	
Advances from minority interest shareholders	191	132
	17,745	5,303
Less: Current portion	758	108
	16,987	5,195

(b) The non-interest bearing notes consist of three \$650,000 notes due January 1, 1978, 1979 and 1980.

(c) The bank term loan and related interest is repayable in U.S. funds. As at December 31, 1977 there exists an unrecorded unrealized exchange loss of approximately \$424,000 on the principal portion of the loan. Terms of repayment are on written demand of the bank or in amounts of principal as follows:

	\$ (U.S.)
1979	625,000
1980	625,000
1981	625,000
1982	2,500,000
1983	3,750,000
1984	1,875,000
	10,000,000

Interest is calculated daily on the amount of principal outstanding and is payable monthly. The rate of interest at December 31, 1977 is 8¾% per annum; this rate is fixed to October 1978 and thereafter at not more than 1½% above LIBOR (London Inter Bank Offering Rate).

As security for repayment of the term loan including interest there exists a chattel mortgage in favour of the bank on specific mining equipment purchased by the company.

8. Capital Stock

	1977 \$ (000's)	1976 \$ (000's)
Authorized —		
100,000,000 common shares, without par value		
Issued and fully paid —		
7,615,250 shares	3,461	3,461

9. Income Taxes

(a) Income taxes charged in computing the net earnings (loss) are summarized as follows:

	1977 \$ (000's)	1976 \$ (000's)
Deferred — current portion		
— long-term portion	(363)	455
	589	2,637
Currently recoverable	226	3,092
Provision for (recovery of) income taxes	226	(717)

(b) Deferred taxes represent the difference in the total tax provision and taxes currently payable. The difference arises during years that expenses allowed as deduction for tax purposes exceed the corresponding expense deducted in computing net earnings for financial statement purposes ("timing differences"). The principal timing differences giving rise to deferred taxes are as follows:

- (i) Depreciation deducted for tax purposes (capital cost allowance) exceeded book depreciation for the year.
- (ii) Exploration and/or preproduction costs deducted for tax purposes exceeded book amortization and/or write-offs for the year.

(c) The company has Canadian exploration expenditures of \$3,614,000 and earned depletion of \$1,205,000 which are available to reduce income for tax purposes in future years. The company also has an unused investment tax credit of \$1,056,000 which may be applied against income taxes payable in future years to 1981 — \$285,000; 1982 — \$771,000.

(d) The company's federal income tax returns for all years to 1975 are presently under routine examination by Revenue Canada — Taxation. Certain issues are still under review, no reassessments have been received and the final liability cannot be determined. At this time, management and tax advisors are of the opinion that adequate provision has been made in the accounts. A provision of \$1,939,000 has been charged against retained earnings as a prior period adjustment.

10. Dividends

Dividends totalling \$.60 per share were declared and paid in the year on the 7,615,250 shares outstanding.

11. Statutory Information

The aggregate direct remuneration paid or payable during the year to directors and officers amounted to \$502,000. (1976 — \$369,000).

12. Commitments

The company has outstanding commitments of approximately \$535,000 with respect to acquisition of fixed assets.

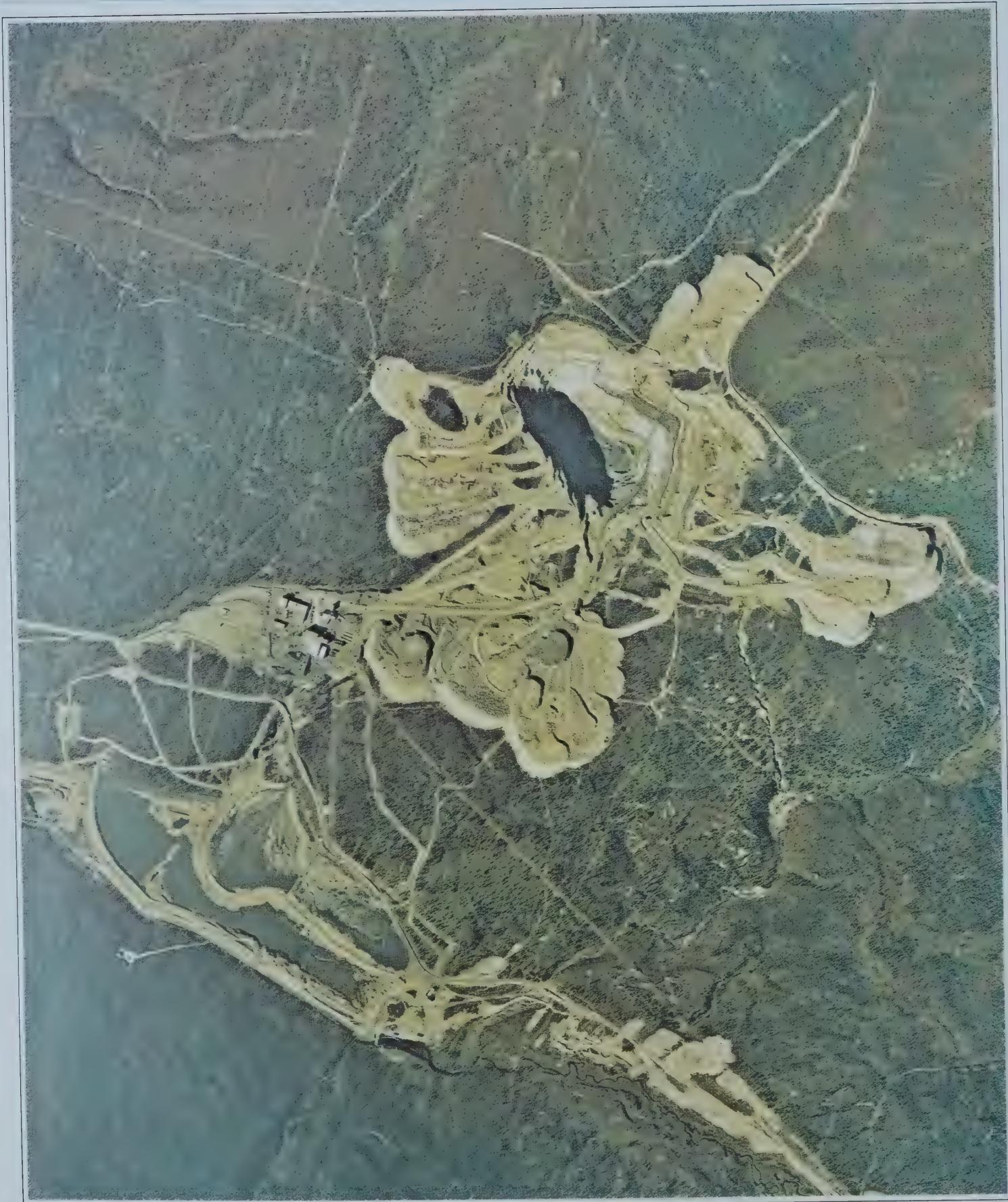
13. Anti-Inflation Act

The company is subject to the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975 for restraint of profit margins, prices, dividends and compensation.

14. Comparative Figures

Certain of the 1976 figures presented for comparative purposes have been restated; see notes 1, 2 and 9 for details and the effect on earnings and retained earnings. The effect on working capital as at January 1, 1976 of the restatement is to decrease the balance of working capital previously reported as \$22,231,000 by \$3,390,000 to \$18,841,000.

The effect on working capital as at December 31, 1976 is to decrease the balance of working capital previously reported as \$12,718,000 by \$2,250,000 to \$10,468,000.



Directors and Officers

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Directors	Officers
Paul W. Allen <i>Executive Vice President</i> <i>Cyprus Mines Corporation</i>	Kenneth Lieber <i>Chairman of the Board</i>
Morris Belkin <i>President</i> <i>Belkin Packaging Ltd.</i>	John Bruk <i>President and Chief Executive Officer</i>
John Bruk <i>President and Chief</i> <i>Executive Officer</i>	R. E. Gordon Davis <i>Senior Vice President</i>
R. E. Gordon Davis <i>Senior Vice President</i>	A. Keith Mitchell <i>Secretary</i>
Richard R. Grantham <i>Senior Vice President</i> <i>and Treasurer</i> <i>Cyprus Mines Corporation</i>	Paul W. Allen <i>Vice President</i>
Kenneth Lieber <i>President</i> <i>Cyprus Mines Corporation</i>	James F. Olk <i>Vice President and General Manager</i>
Donovan F. Miller <i>Chairman & Chief Executive Officer</i> <i>Canadian Fishing Company Ltd.</i>	Robert L. Cook <i>Vice President and Treasurer</i>
H. Richard Whittall <i>Partner</i> <i>Richardson Securities of Canada</i>	Selwyn B. Jones <i>Vice President Administration</i>
	J. Glenn Simpson <i>Vice President Exploration</i>
	T. S. Andrew <i>Comptroller</i>
	Thomas H. Biggs <i>Assistant Treasurer</i>

An aerial photograph of the Anvil minesite taken from a height of 12,000 ft. The dark shape just off centre is the mine itself, shadowed due to the elevation of the sun. The concentrator complex and administration buildings appear below and to the left of the mine and the tailings pond area is at the lower left of the photo. The road running to the bottom right leads to the town of Faro, twelve miles distant.

Scale: 1 inch = 2,000 feet.

Senior Staff and Corporate Directory

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Senior Staff	Corporate Directory
OPERATIONS	
Management	
Andrew H. von Kursell <i>Resident Manager</i>	Head Office: 330-355 Burrard Street Vancouver, British Columbia
L. Peter Taggart <i>Assistant Resident Manager</i>	Registered Office and Records Office: 26th Floor—Toronto Dominion Bank Tower 700 West Georgia Street Vancouver, British Columbia
David L. Marr <i>General Mine Superintendent</i>	
William N. Wallinger <i>General Mill Superintendent</i>	Mine Office: P.O. Box 1000 Faro, Yukon Territory
Administration	
Joseph B. Lidster <i>Manager — Personnel & Industrial Relations</i>	Auditors: Coopers & Lybrand Royal Bank Building 1055 West Georgia Street Vancouver, British Columbia
George H. Wight <i>Chief Accountant</i>	
Raymond Webb <i>Purchasing Agent</i>	
Mine	Solicitors: Farris, Vaughan, Wills & Murphy Toronto Dominion Bank Tower 700 West Georgia Street Vancouver, British Columbia
John C. Devitt <i>Acting Mine Superintendent</i>	
Mill and Metallurgical	
Newman G. Cornish <i>Manager — Environmental Control & Special Projects</i>	Employees Union: United Steelworkers of America Operating Employees Locals 1051 & 7745 Faro and Carmacks, Yukon Territory
R. Bruce Ferguson <i>Chief Metallurgist</i>	Office & Technical Employees Local 8243 Faro, Yukon Territory
Robert C. Smith <i>Mill Production Superintendent</i>	
Mechanical and Electrical Maintenance	Registrar and Transfer Agents: Guaranty Trust Company of Canada at its principal offices in Vancouver, Calgary, Regina, Winnipeg, Toronto and Montreal
Sid D. Taylor <i>Electrical Superintendent</i>	
Engineering	Direct enquiries to: Selwyn B. Jones, Vice President, Administration 330-355 Burrard Street Vancouver, British Columbia Telephone: (604) 687-2586
Denis Gregoire <i>Acting Chief Mining Engineer</i>	
Murray O. Hampton <i>Senior Coal Engineer</i>	
Coal Mine	
Stendell Alton <i>Coal Mine Superintendent</i>	
EXPLORATION	
David S. Jennings <i>Chief Geologist</i>	

*Design Don Wimbles
Separations Graphic Industries Ltd.
Lithography Western Miner Press Ltd.
Typography POLAgraphics Ltd.*



CYPRUS ANVIL

CYPRUS ANVIL

To our Shareholders:

Your Company's net profit for the first half of 1977 amounted to \$2,236,000.00, equal to 29¢ per share compared to \$1,054,000.00 or 14¢ per share in the first half of 1976.

Average metal prices prevailing during the first half of 1977 were: lead 30.2¢ per pound, zinc 36.6¢ per pound, and silver \$4.78 per ounce, as compared to 18.8¢, 35.5¢ and \$4.22 for the similar period of 1976. However, since May, prices for both lead and zinc have dropped approximately 4¢ per pound, and we do not anticipate a substantial improvement in these prices during the remainder of this year. Talks are continuing with our traditional customers regarding contract extensions, and we expect that these discussions will be concluded before the year end.

Your directors have declared a regular quarterly dividend of 15¢ per share payable on August 31, 1977, to shareholders of record on August 12, 1977.

During the second quarter of 1977 the mill throughput was slightly below rated capacity due mainly to the backlog of maintenance work carried forward from the previous period. By the end of the quarter, this backlog was substantially reduced. The grade of ore delivered to the mill was lower than had been estimated for this quarter. During April the new larger mining equipment was placed into service. This consists of two 15 cu. yd. power shovels and fourteen 120 ton trucks and as the new equipment was started up much of the older original mining equipment was phased out. Aside from the normal startup and shakedown problems, the equipment is performing well.

Diamond drilling is continuing on the DY claims in the Anvil district where a deep lead-zinc sulphide zone was discovered last year. Extensions of the zone have been encountered by this year's drilling and results will be summarized on completion of the program.

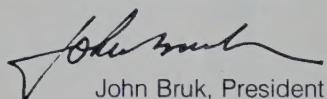
Drilling has recently commenced on the MM lead-zinc prospect south of Ross River which is being explored jointly with Hudson's Bay Oil and Gas Limited. A diamond drill and bulk sampling program is now in progress on the Tulameen thermal coal project near Princeton, B.C., and a number of base metal properties are being explored by detailed geophysical and geochemical surveys in the Yukon and Northern British Columbia. Several new properties have been staked as a result of regional programs.

It is with deep sorrow that we record the untimely death on May 27, 1977, of Dr. Aaro E. Aho, a director and a founder of the Company. In 1964, Dr. Aho founded Dynasty Explorations Ltd., and it was due to his efforts and those that he inspired that Anvil's Faro orebodies were discovered. It was through his competence that Cyprus Mines Corporation of Los Angeles became associated with Dynasty, from which association our present Company evolved.

The many tributes which have been paid to Dr. Aho have spoken to his dedication, to his enthusiasm and to his warmth. He inspired all who worked with him and for him and imbued them with the same practical faith and sense of purpose which he enjoyed in such large measure. Dr. Aho will be missed, not only by his colleagues and friends, but by all who knew him.

In recognition of Dr. Aho's contribution to our Company, to the mining industry and to geological sciences, your directors and some of his colleagues have taken the initiative in the establishment of the Dr. Aaro E. Aho Foundation to encourage the study of geological sciences with particular emphasis on new approaches which will be required to discover new ore bodies, such as he pioneered. A Board of Trustees will administer the Foundation and encourage all sectors of the community, private, business and government, to join in creating a worthy memorial to Dr. Aho.

August 8, 1977



John Bruk, President

Summary of Operations

	Three Months Ended June 30		Six Months Ended June 30	
	1977	1976	1977	1976
Ore:				
Tons Milled — dry short tons (000's)	875	600	1,660	1,218
% Lead	2.59	2.89	2.64	2.69
% Zinc	4.50	5.52	4.81	5.38
Concentrate Produced:				
Lead Concentrate — dry short tons	25,167	18,699	48,662	35,224
% Lead	64.57	67.94	64.21	67.75
Zinc Concentrate — dry short tons	54,188	45,634	111,626	90,057
% Zinc	50.42	51.27	50.56	51.55
Bulk Concentrate — dry short tons	10,573	8,437	23,291	19,008
% Combined Lead/Zinc	52.43	50.89	51.22	49.01

Cyprus Anvil Mining Corporation

Statement of Earnings (Unaudited)

(in thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	1977	1976*	1977	1976*
Revenue:				
Concentrate Sales	\$37,133	\$20,244	\$61,153	\$35,438
Deduct: Ocean freight, treatment and related charges	16,817	8,728	26,909	15,418
	<u>20,316</u>	<u>11,516</u>	<u>34,244</u>	<u>20,020</u>
Operating Expenses:				
Production, Inland Transportation and Port Costs	11,956	8,196	22,613	18,186
Administration and General	2,304	1,833	4,292	3,827
Depreciation	1,212	623	2,332	1,338
Amortization	316	216	690	451
(Increase) Decrease in product inventory levels	4,910	(1,702)	2,096	(6,200)
	<u>20,698</u>	<u>9,166</u>	<u>32,023</u>	<u>17,602</u>
Operating Income (Loss)	(382)	2,350	2,221	2,418
Non-Operating Expenses (Income):				
Interest on long-term debt	229	132	394	262
Interest income	(61)	(2)	(147)	(104)
(Gain) Loss on Foreign Exchange	(36)	228	(329)	640
Loss on disposal of capital asset	10	—	10	—
	<u>142</u>	<u>358</u>	<u>(72)</u>	<u>798</u>
	<u>(524)</u>	<u>1,992</u>	<u>2,293</u>	<u>1,620</u>
Provisions for (Recovery of) Income Tax and Yukon Royalty:				
Income Tax	(721)	687	57	566
Yukon Mining Royalty	(132)	—	—	—
	<u>(853)</u>	<u>687</u>	<u>57</u>	<u>566</u>
Net Earnings for the Period	\$ 329	\$ 1,305	\$ 2,236	\$ 1,054
Earnings Per Share	\$ 0.04	\$ 0.17	\$ 0.29	\$ 0.14

*The comparative figures for the six months ended June 30, 1976 have been restated to reflect changes in accounting principles. The changes in method were not applied retroactively.

The net effect of the two method changes on the six months ended June 30, 1976 was to increase the net earnings by \$1,151,000.

The previously published restated comparative figures for the three months ended June 30, 1976, which reflected the changes on the first quarter of 1976 was to decrease the net loss originally reported by \$1,121,000.

Cyprus Anvil Mining Corporation

Statement of Source and Use of Working Capital (Unaudited)

(in thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	1977	1976*	1977	1976*
Source of Working Capital:				
Current Operations	\$ 1,427	\$ 2,620	\$ 5,307	\$ 3,861
Bank Loan	(5)	—	4,070	—
Long-term debt	1,300	—	1,300	—
	<u>2,722</u>	<u>2,620</u>	<u>10,677</u>	<u>3,861</u>
Use of Working Capital:				
Fixed asset additions — net	4,351	2,116	7,832	2,803
Deferred costs	419	201	1,005	439
Long-term debt	13	19	39	38
Investments	2,601	—	2,606	80
Reallocation of deferred taxes to current	(385)	—	(385)	273
Dividends	1,142	1,144	2,284	2,286
	<u>8,141</u>	<u>3,480</u>	<u>13,381</u>	<u>5,919</u>
Decrease in Working Capital	<u>5,419</u>	<u>860</u>	<u>2,704</u>	<u>2,058</u>
Working Capital				
Beginning of Period	<u>15,433</u>	<u>21,033</u>	<u>12,718</u>	<u>22,231</u>
Working Capital				
End of Period	<u>\$10,014</u>	<u>\$20,173</u>	<u>\$10,014</u>	<u>\$20,173</u>
Represented by:				
Current assets	14,552	27,315	14,552	27,315
Current liabilities	4,538	7,142	4,538	7,142
Working Capital				
End of Period	<u>\$10,014</u>	<u>\$20,173</u>	<u>\$10,014</u>	<u>\$20,173</u>

estated to reflect the changes in methods of determining depreciation
urth quarter of 1976 for the year ended December 31, 1976. These two

976 is to increase the net earnings previously reported by \$1,033,000

ded March 31, 1976 have been amended. The net effect of the method
ported in 1976 by \$1,003,000 and to increase the working capital by

Approved on behalf of the Board

JOHN BRUK, Director

R.E. GORDON DAVIS, Director

CYPRUS ADVL

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for the first half ended June 30, 1977